Nova Scotia Department of Finance

Accountability Report

2002- 2003

NOVA SCOTIA
Department of Finance

106-05017/

Department of Finance

Accountability Report for the Fiscal Year 2002-2003

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Accountability Statement

The Accountability Report of the Department of Finance for the year ended March 31, 2003, is prepared pursuant to the *Financial Measures Act* and government policy and guidelines. These authorities require the reporting of outcomes against the Department of Finance business plan for the fiscal year 2002-03. The reporting of Department of Finance outcomes necessarily includes estimates, judgments and opinions by Department of Finance management.

We acknowledge that this accountability report is the responsibility of Department of Finance management. The report represents, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Department of Finance business plan for the year.

Honourable Peter Christie
Minister of Finance

Howard Windsor
Deputy Minister

Message from the Minister

The Department of Finance is committed to open and transparent accounting of the Province's books. We are responsible to the taxpayers of Nova Scotia, and as such, I am pleased to present this Accountability Report, based on the goals set forth in the 2002-03 business plan.

All aspects of the Department's core functions are aimed at achieving fiscal stability. During 2002-03, we achieved our goal of a balanced budget and have begun the process for meaningful tax reduction and addressing our debt.

We will meet our ongoing commitment to be accountable with timely reports on the status of the Province's fiscal situation throughout the year.

Honourable Peter Christie
Minister

Mission Statement

To establish a fiscal climate conducive for economic growth and to provide central agency support and policy direction for effective management of the Province's finances.

Introduction

The Accountability Report is based on the goals, priorities and outcomes set out in the Department of Finance Business Plan 2002-03 and therefore, both documents should be read together. The purpose of the report is to provide an account of progress made on our goals, with a focus on high level strategic outcomes. Historical and comparative information is included where necessary, to enhance the readers' ability to understand the accountability information presented.

Department Progress and Accomplishments

Goals

- To enhance financial accountability in the management and control of the province's finances.
- To enhance Nova Scotia's long-term fiscal position, provide for fair and efficient taxation and promote economic growth in a strategic way that balances the social responsibilities of government and debt reduction.
- To provide a core set of high quality corporate services and infrastructure that supports the efficient and effective management of the province's public resources, including: government accounting, payroll, pensions, fiscal planning, treasury, statistics, and internal audit.
- To achieve effective money management that maximizes return on investments and minimizes debt servicing costs, within acceptable risk tolerances.
- To foster an environment that values its clients and its employees.

The Department's goals directly support the Government's priorities as reflected in Government's stated commitments contained in the Government Business Plan. The activities within each of the core business functions of the Department support these linkages. Economic development is enhanced with the overall fiscal health of the Province and through effective taxation policies. The development of accountability mechanisms of legislation and regulations directly supports the Government's directions. As an integral part of the Department's culture, Finance reviews its services on an ongoing basis and responds to client needs and feedback within its fiscal capacity. All aspects of the Department's core business functions support achieving fiscal stability and building a responsive and accountable government.

Priorities and Accomplishments for 2002/03

Financial Accountability

Priority

Deliver a balanced budget in fiscal 2002-03 and produce a four year fiscal plan that meets government's objective to put Nova Scotia's finances in order.

Accomplishments

- The Province delivered a second consecutive balanced budget.
- The Department of Finance produced a debt reduction plan on a go-forward basis which included:
  - the commitment of a yearly, increasing budget reserve fund for debt reduction.
  - the creation of a debt retirement fund using a portion of interest earned on investments; and
  - enacting legislation that commits extraordinary revenues to the province, as well as the money from the sale of provincially owned assets, to the debt retirement fund.

Priority

Continue enhancement of accountability and governance structures as they relate to public policy and administration of financial resources through the continued improvement of the province's financial management policies and procedures.

Accomplishments

- Produced the department's second consecutive Accountability Report, reporting on fiscal year 2001-02 in compliance with Treasury and Policy Board Guidelines.
- Initiated a Tangible Capital Asset (TCA) policy review with an expected implementation date of fiscal year 2004-05.
- Developed a draft strategy to update school board accounting policies in compliance with the Generally Accepted Accounting Principles (GAAP).
- Continued to assess the degree of consistency with Public Sector Accounting Board (PSAB) Guidelines.
  - Nova Scotia follows a consistent standard of reporting its financial results. Canadian Generally Accepted Accounting Principles for government are set by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board.
  - Nova Scotia continues to be ahead of most provinces in implementing PSAB financial reporting standards. This strategy has been in place for four (4) fiscal years to ensure a manageable process for these major conversions.

Priority

Continue to improve overall fiscal management by producing more relevant and timely financial reports.

Accomplishments

- Tabled the province's Public Accounts for fiscal year ending March 31, 2002 in advance of the December 31st legislated requirement and in compliance with Generally Accepted Accounting Principles.
- Prepared fiscal and economic updates within required time frames.

Priority

Monitor government's exposure to financial risk on such items as foreign exchange and unforeseen events.

Accomplishments

- The Province's exposure to foreign exchange has been significantly curtailed through the reduction of its foreign currency exposure from 50% to 20% in the past four years.
- The Department of Finance has identified the provincial debt as a significant concern to the prosperity of Nova Scotians. The net direct debt to GDP ratio for 2002-03 is 44.7%. This represents a decrease from 46.3% (the restated ratio for 2001-02 based on accounting changes implemented in 2002-03).
- Quarterly fiscal and economic updates are produced to more closely monitor and appropriately react to unforseen events.

Priority

Implement a common Enterprise Resource Management system in the broader public sector including district health authorities, school boards and municipalities.

Accomplishments

- Completed the School Board SAP Financial Implementation Project April 1, 2002. The Department of Finance provides ongoing financial systems support and training for all seven (7) Provincial School Boards.
- Completed a detailed Planning & Scoping exercise to integrate the Human Resources Management modules of SAP for all Provincial Departments & Agencies as well as all Provincial School Boards. Personnel cost planning represents a significant challenge to the Nova Scotia Public Sector. One common Financial and Human Resource system will provide the automated tools required to forecast and monitor provincial HR expenditures. The expected implementation of the SAP HR modules for Provincial Departments, Agencies and School Boards will be in the Fall of 2004.
- Initiated an SAP Utilities (Tax & Water) billing system implementation project for the Municipal Sector within Nova Scotia. This system will be fully integrated with the existing Municipal SAP Financial system. The expected implementation date for the first Municipal client will be January, 2004. The system will then be available for roll-out to further Municipalities within the Province.

- Completed an initial Planning & Scoping exercise to implement the full suite of SAP software to the Provincial District Health Authorities.

Priority

Continue to monitor and report on the fiscal plan in a timely manner, in conjunction with Treasury and Policy Board.

Accomplishments

- The Department of Finance produced quarterly fiscal and economic updates, in fiscal year 2002-03, in the time frame required to allow government to fulfill its legislative mandate.

Investments, Pensions and Debt Management

Priority

Finalize documentation of guarantee review process and develop policies for public capital risk allocation methodology.

Accomplishments

The Department of Finance, with the cooperation of provincial crown agencies and other Government Departments, has finalized documentation surrounding the principles and procedures of a guarantee review process. These procedures have been implemented on a one year trial basis after which time a review will identify any necessary amendments or additions. This is the first step developing policies for a broader public risk capital allocation methodology.

Priority

Integrate treasury management systems and capital market information systems and accounting systems to enhance the overall control, monitoring, and performance of the Liability Management and Investment Divisions.

Accomplishments

The integration of treasury management systems, capital market information systems and accounting systems is still under review. There are limited staff resources available for this project at present. Staff will continue to explore the practicality of integrating the systems in question where resources are available.

Priority

Effectively manage the assets of the Teachers' Pension Plan (TPP) and the Public Service Superannuation Plan (PSSP) and the pension plans and insureance programs of the former Sydney Steel Corporation.

Accomplishments

- Markets declined again in 2002, resulting in the third consectutive year that the funds did not achieve their theoretical rate of return, resulting in significant increases in the amount of unfunded liability for both major plans.
- PSSP The funded ratio declined from 95.8% as of December 31, 2001 to 82.1% as of December 31, 2002.
- TPP The funded ratio declined from 87.5% as of December 31, 2001 to 76.8% as of December 31, 2002.
- Pension and Investment staff are currently reviewing the level of funding and what options may be required to improve the funding level of the plans. Returns to date for calendar year 2003 are exceeding the theoretical rate of return for the plans.
- Investments staff did however exceed their comparator benchmark for the fourth year in a row reducing the impact on the Provinces pension funds.

Fiscal Planning and Policy Development

Priority

Develop a corporate income tax strategy and process for ongoing evaluation of provincial income tax credits, rebates and tax expenditures.

Accomplishments

- Tax credits are generally renewed for specific time periods requiring review before they can be extended. This is part of a strategy to ensure all tax credits receive periodic review to ensure they meet the objectives.
- Reviewed a number of tax credits including equity tax credit and labour sponsored venture capital credit and made recommendations for changes.

Priority

Prepare analysis and recommendations on tax policy priorities

Accomplishments

- Prepared analysis on personal income tax reductions for consideration by government in its fiscal planning process
- The 2003-04 Budget contained a number of tax initiatives including a 10% tax reduction scheduled for 2004, a Nova Scotia Taxpayer Refund and an increase in the small business income threshold.

Priority

Provided comprehensive research and analysis to support Nova Scotia's interests in fiscal arrangements negotiations with other governments including renewal of the equalization program, additional health care funding and HST revenue allocation.

Accomplishments

- Attended and made presentation at a number of federal-provincial-territorial technical meetings dealing with changes to the equalization formula.
- Hosted provincial-territorial Ministers meeting in December 2002 in Ottawa, prior to federal-provincial-territorial meeting.
- Prepared briefing and analysis for First Ministers meeting held in February 2003 on health care funding
- Attended all meetings of the HST revenue allocation sub-committee and Tax Policy Review Committee meetings.

Priority

Provide support to Provincial-Territorial Finance Ministers deliberations as Nova Scotia assumes the key responsibilies associated with chairing this committee commencing August 2002 to August 2003

Accomplishments

- Hosted and provided support for provincial territorial meeting in December 2002. Made preparations for support and hosting provincial territorial Finance Ministers meeting in June 2003.

Priority

Monitor and develop economic forecast information and analysis and enhance the economic models to support the accurate and timely development of forecasts of Nova Scotia's economic performance.

Accomplishments

- Completed upgrades to economic forecasting model
- Provided economic forecasts for the fiscal planning and budgeting process

Priority

Implement recommendations of the action plan of the Statistical Needs and Capacity Survey.

Accomplishments

- A formal action plan and related recommendations were not developed. The Statistical Needs and Capacity survey identified a number of areas for ongoing development with particular attention to providing easier access to a wider range of statistics. Details of specific activities to meet this requirement are outlined under the Corporate Services section of this report. A key finding of the survey was that many of the needs of departments and agencies were already being met through current services of the Statistics Division. Over the three months that the survey took place, downloads of statistical publications almost tripled in volume.

Priority

Develop a surplus management and debt policy, to achieve government's objective of fiscal sustainability.

Accomplishments

- As a first step and as part of its Budget Documentation in 2002-03, the province released a document entitled "A Balanced Approach to Surplus and Debt Management" which outlined the provincial debt burden and the importance of addressing the debt challenge. The Four-Year Debt Reduction Plan was scheduled for release in June, 2003.

Corporate Services

Priority

Provide improved government access to a wider range and detail of social and economic statistics to support evidence-based management and policy development.

Accomplishments

- redesigned the statistics internet site to give easier access to online statistics and publications (over 185,000 downloads in 2002-03 which was an 83% increase over 2001-02)
- all Statistics Division publications are now available at no cost from the internet
- developed and released statistical profiles by county and provincial electoral district
- provided statistical support to the Nova Scotia Electoral Boundaries Commission in redefining the provincial electoral boundaries
- expanded the scope and content of the Nova Scotia Statistical Review (53,500 downloads in 2002-03 compared to 24,200 in 2001-02)
- developed and implemented a statistical intranet site with a wide range and depth of statistical information for use by program administrators, policy analysts and research staff
- provided evidenced-based support to a review of the Fluoride Mouth Rinse program administered by the Department of Health
- increased purchase of statistics with broader licence coverage for use by provincial government departments and agencies

Priority

Continue to provide leadership and co-ordination to the implementation of standard accounting software and systems for the provincial public sector.

Accomplishments

- Completed the SAP financial system implementation for Nova Scotia Business Incorporated (NSBI) using internal departmental resources.
- Achieved ongoing system support savings with the transition of IT support from the School Board SAP implementation project to the Department of Finance.

- Migrated the current Municipal SAP systems to the Department of Finance resulting in augmented support capabilities while providing the infrastructure capacity required for expansion to additional provincial municipalities.

Priority

Provide guidance and support to departments and agencies on significant accounting and financial issues.

Accomplishments

- Provided leadership for the Province's Senior Financial Executive Forum (SFEF) by sponsoring the first phase of a strategy to address HR concerns across the public sector financial community.
- Identified and prioritized e-commerce initiatives for corporate credit card consolidation and electronic vendor payment processes.

Priority

Provide corporate internal audit services for the provincial government.

Accomplishments

- Developed a three-year comprehensive audit plan targeting all areas on material risk to government.
- Provided a major supportive role to the Office of the Auditor General in their audit of the public accounts.

Priority

Deliver pension services to plan members and beneficiaries, effectively and efficiently.

Accomplishments

- The new pension administration system (Penfax) has been completed and is in use for basic pension calculations and transactions. There are a number of data issues and enhancements that will be reviewed and implemented in fiscal 2003-04.
- A trial roll out of the internet based pension system (Penweb) was initiated for thirty-five hundred plan members who are currently eligible to retire. There were approximately ten thousand hits generated on the site by these thirty-five hundred members, as they were able to review and look at retirement options available to them.
- A staffing plan was developed to address service and system issues and work commenced on developing position descriptions, etc. to implement the plan.

Priority

Provide Payroll and Government Accounting services for the provincial government.

Accomplishments

- Initiated the elimination of notification of direct deposit for Provincial civil servants. This resulted in a reduction of administrative services required to distribute the bi-weekly paper copies of these notifications. The rollout of this initiative to all Provincial departments is expected by July, 2003.
- Significant resources committed from Government Accounting, Payroll and Corporate Information Systems to participate in the detail Planning & Scoping project to implement the Human Resources modules of SAP to all Provincial Departments, Agencies and School Boards. Specific advice was given on integration issues with the current SAP financial system.

Human and Technical Resources

The development of the department's human and technical resources is central to its ability to deliver the core business functions. The following priorities were aimed at achieving this goal:

Priority

Contribute to the quality and professionalism of human resource management in the department.

Accomplishments

- provide sound advice and assistance to departmental management in dealing with human resource management issues;

- assist management with the delivery of the annual performance appraisal process. This includes ensuring that employees' performance is assessed against identified individual goals and objectives for the year showing the linkage of individual performance to the division's operational work plan for the organization and in turn how these work plans contribute to the mandate of the department.

Priority

Continue to develop a productive and skilled workforce in a healthy and safe work environment.

Accomplishments

- represented the department by participation on the Joint Occupational Health and Safety Committee comprising of representatives from all government departments and unions.

- ensuring that adherence to the Occupational Health and Safety Act is done by both employees and management in delivering on their on their day-to-day work responsibilities (managed through the departmental Health and Safety Committee).

Priority

Acquire and develop technologies to improve productivity and output quality

Accomplishments

The IT division undertook a comprehensive review of the existing infrastructure within the department. This included a review the network architecture, requisite hardware to deliver expected service requirements, and the software necessary to accomplish the department's business objectives. Towards the end of the fiscal year several new data servers were acquired and delivered to mitigate the risks of hardware failure and a comprehensive architecture design was submitted to Senior Management for review, approval and funding. It is anticipated the network replacement will be accomplished in the 2003-04 fiscal year and a plan will be implemented to deal with the Technology Refresh needs of the Department.

Priority

Continue to improve staff training opportunities to provide the skills necessary to achieve the Department's strategic goals

Accomplishments

- provide staff with the opportunity to participate in training/learning opportunities such as the Leadership Development Programs through the Public Service Commission. Thirty-four individuals participated in training courses, including 11 who were involved in Leadership Development.

- provide assistance to staff and management in determining reasonable training needs in order that employees have the necessary skills to be able to deliver on both their individual and divisional operational work plans.

Budgeting Context

DEPARTMENT OF FINANCE
AUTHORITY TO ACTUAL VARIANCE REPORT FOR FISCAL YEAR 2002-2003
(Actuals as of June 27, 2003)

Core Business Function	2002-2003 Authority	2002-2003 Actuals	Actuals to Authority Variance	Actuals Spent to Authority Variance %	Notes
Senior Management	731000	788690	57690	107.9%	1
Policy and Planning	298000	275163	-22837	92.3%	2
Corporate Service Units	2093000	1870884	-222116	89.4%	3
Contoller	7602000	7486727	-115273	98.5%	4
Fiscal & Economic Policy	1740000	1722314	-17686	99.0%	
Investments, Pensions & Treasury Services	865000	758471	-106529	87.7%	5
Department of Finance	**13329000**	**12902249**	**-426751**	**96.8%**	

Notes	Actuals to Authority Variance Explanation
1	Actuals high due to increases in general operating expenses including bulk printing and professional services.
2	Actuals low due to increased recoveries.
3	Actuals low due to salary savings, various operating savings and an increase in salary and secondment recoveries
4	Actuals low due to vacant Audit Consultant position and savings in various operating expenses
5	Actuals low due to savings in salaries and benefits as a result of vacancies, travel, IT leases and professional services.

Performance Measures

The following section of this report provides 'mini-reports' on each of the department's measures highlighted in the 2001-02 Business Plan – *Attachment A - Finance Measures, 2001-02.* Each measure is introduced by its core business area, followed by its intended outcome. The bulk of the report addresses three questions:

- *What does the measure tell us?*
  Defines the measure and indicates how the measure is linked to the intended outcome.

- *Where are we now?*
  Reports the baseline data and year and refers to comparison and or trend data where applicable

- *Where do be want to go?*
  Identifies relevant activities or strategies in place to realize the intended outcome.

Core Business: Financial Accountability
Measure: Outcomes Reporting
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. An outcome used to gauge whether the department has achieved its core business is effective management of the province's financial operating resources. Outcome reporting through the production of an annual accountability report is a measure used to gauge performance.

What does the measure tell us?

Annual accountability reports summarize the activities, accomplishments and outcomes of the previous fiscal year, and specifically reflect on annual business plans. They describe major results, achievements and progress in meeting the department's intended goals, priorities and outcomes set in the departmental business plan.

Where are we now?

The Department of Finance tabled the province's Public Accounts for fiscal year ending March 31, 2002 in advance of the December 31st legislated requirement. In addition, quarterly fiscal and economic updates were produced for fiscal year 2002-03, in the time frame required to allow government to fulfill its legislative mandate.

The Department of Finance produced its second consecutive accountability report, reporting on fiscal year 2001-02, and also produced its 2003-04 business plan with outcome measures in compliance with guidelines developed by Treasury and Policy Board.

Where do we want to go?

The department will continue to release an annual accountability report, reporting on its activities and performance, including reporting the outcome, measure, baseline year data, comparison data, targets, and strategies in place to assist in achieving intended outcomes.

Core Business: Financial Accountability
Measure: Systems and mechanisms in place to monitor third party spending
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. A measure used to meet this outcome is systems and mechanisms to monitor third party spending – such as the implementation of Enterprise Resource Management software in the municipal, academic, school board and hospital sector.

What does this measure tell us?

The implementation of one common Enterprise Resource Management software can unite all business processes of the government as a whole in a comprehensive system. Each application has the ability to stand alone because of the modular structure of the software. The applications address areas of operations such as accounting, materials management, utilities billing and human resources. These applications not only have the potential to span the entire range of the business done by government, they will remain current with government's changing needs.

This measure tells us the number of provincial reporting entities with effective financial management systems and the number of provincial departments which have online and realtime access to their respective provincial reporting entities' financial information.

Where are we now?

The government is providing funding and in-kind support for a number of SAP implementation projects. The following list represents the systems implemented as of March 31, 2003:

All Provincial Departments & Agencies
All seven (7) Regional School Boards
All seven (7) Regional Housing Authorities (implemented 2002-2003)
Six (6) Provincial Municipalities (1 new Municipality implemented 2002-2003)

Where do we want to go?

Further expansion of the education sector, with implementation of the new financial system in all schools within the province by fiscal year end 2004-2005. Implementation of the Municipal Utility Billing module by fiscal year end 2003-2004. Implementation of the Human Resources module within the province and school boards in fiscal year 2004-2005. Future plans also include implementation of the system in the district health authorities.

Core Business: Financial Accountability
Measure: Comprehensive Audit Plan
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. One measure used to meet this outcome is a multi-year comprehensive audit plan, which seeks to identify and report on the risks within government that would prevent achievement of this outcome.

What does the measure tell us?

This measure would provide assurance to government that there is effective management of the province's financial operating resources, based on the results of issued Audit Reports. The Audit Reports would comment on whether there are controls in place or that the controls mitigate the risk to an acceptable level. If the outcome is not being achieved, the report would make recommendations to management to mitigate the risk.

Where are we now?

The audit division is in the process of making the revisions to its reporting relationships and its structure to ensure that this outcome can be achieved within government. Due to other commitments, the audit resources, that can be allocated to ensuring this outcome, have been minimized.

Where do we want to go?

The division has developed a strategy to address the current challenges. In the next few years, in coordination with the Risk Management Officer, the Division will develop a risk-based audit methodology to identify those areas of high risk and ensure that the identified risks have the appropriate controls to ensure that the risks are mitigated and the outcome can be achieved.

Core Business: Financial Accountability
Measure: Degree of consistency
Outcome: Transparent and open financial reporting

A core business area of the department is financial accountability. A desired outcome is transparent and open financial reporting. A measure used to gauge this outcome is the degree of consistency in reporting, using generally accepted accounting principles for government, as set by the Canadian Institute of Chartered Accountant Public Sector Accounting Board (PSAB).

What does this measure tell us?

This measure tells us that Nova Scotia follows a consistent standard of reporting its financial results based on the generally accepted accounting principles for governments as set by (PSAB).

Where are we now?

Nova Scotia continues to be ahead of most provinces in implementing PSAB financial reporting standards. This strategy has been in place for four (4) fiscal years to ensure a manageable process for these major conversions.

Following PSAB rules for reporting, the consolidation of other related entities into the province's financial results was done for the first time in 1998-99. This was a turning point on the road to transparency and disclosure. Related entities, such as health and school boards, are now included in the tally of the fiscal results and debt – two key measurements of performance. No longer can debt and deficits be located in another related entity without being reported as belonging to the province. Adoption of consolidated reporting gives the public "one set of books" with an "all in" approach.

The accounting for tangible capital assets and pensions was converted to be compliant with PSAB recommendations for 1999-2000. The new tangible capital asset policy has promoted better planning for capital expenditures and better resource management. It reflects that such assets have a useful life of more than one year and thus provide benefits to many future years. In addition, the pension accounting policy now measures benefits as they are earned, allowing for more complete recognition and measurement of retirement obligations.

In 2002-2003, the province implemented accounting for retirement health benefits which further places Nova Scotia in compliance with all Generally Accepted Accounting Principles. In addition, the Department of Finance implemented new guidelines on the reporting model for provincial government financial statements. These new guidelines will enable the province to report non-financial assets on the balance sheet, giving the appropriate recognition to items such as tangible capital assets, supply inventories and prepaid expenses.

Where do we want to go?

Full compliance with PSAB recommendations is our minimum standard. Attention to new pronouncements is required to ensure new recommendations are built into the accountability plan. Being compliant in respect of policies is important so more focus can be directed to refining other accountability methods such as performance measurement.

Core Business: Financial Accountability
Measure: Date annual report (financial statements) issued
Outcome: Effective management of province's financial operating resources

A core business area of the department is financial accountability. A desired outcome is the effective management of the province's financial operating resources. A measure used to achieve this outcome is annual reporting to the public through the production of timely financial statements.

What does this measure tell us?

Financial statements are an audited confirmation of the financial performance and position of the province for the fiscal year. It is important for users – especially external users like debt rating agencies, to receive this information on a timely basis. These agencies use the audited information for assessment and decision making in regard to their relationship with the province. Timely release of the information also builds credibility in the process.

Where are we now?

The *Provincial Finance Act* requires that the financial statements are tabled by December 31st following the March 31st year end. For the past four consecutive fiscal years, the financial statements have been tabled in advance of December 31st deadline, despite major accounting policy changes to implemented in those years.

Where do we want to go?

Continue to meet the legislative deadline of December 31st as a minimum standard with a goal to release the audited financial statements as early as possible without compromising their preparation or audit processes. Timing will vary depending on the number of complex issues and accounting policy changes needing to be addressed in any given year.

Core Business: Financial Accountability
Measure: Dates updated forecasts are issued
Outcome: Transparent and open financial reporting

A core business area of the department is financial accountability. A desired outcome is transparent and open financial reporting. A measure used to gauge this outcome is the dates that updated forecasts are issued.

What the measure tell us?

Regular scheduled financial reporting informs Nova Scotians about the state of the province's finances. Quarterly fiscal and economic updates allow the public to gauge how the government is managing its resources and how fiscally responsible government is.

Where are we now?

There is a legislated requirement that government publicly report on its financial position. These reports are to be produced within three months of the end of each quarter. In 2002-03, the Department of Finance produced its second consecutive year of quarterly fiscal and economic updates in the time frame required to allow government to fulfil its legislative mandate.

Where do we want to go?

Continue to meet the legislative require to release quarterly reports within the three month time frame.

Core Business: Fiscal Planning and Policy Development
Measure: Net debt service costs as a percentage of revenues. Net direct debt as a percentage of GDP
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of orderly, prudent and sustainable multi-year fiscal plans. A measure used to gauge how effective the department is in achieving this outcome is the debt burden of the province.

What does the measure tell us?
Net debt service costs as a percentage of revenue and net direct debt as a percentage of GDP are indicators of the fiscal sustainability and flexibility of the province. The higher the ratios, the greater the debt burden on the residents of Nova Scotia.

Where are we now?
Net debt service costs as a percent of revenues declined to 15.7% in 2002-03, from 17.5% in 2001-02. As of March 31, 2003, the net direct debt to GDP ratio stands at 44.7%. This represents a decrease from 46.3%, the restated net direct debt to GDP ratio for 2001-02 based on accounting policy changes implemented in 2002-03.

Where do we want to go?
The long-term objective is to have steady reductions in both of these measures to reflect ratios that are more in line with the national average.

Core Business: Fiscal Planning and Policy Development
Measure: Surplus Management/Debt Control Plan
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of orderly, prudent and sustainable multi-year fiscal plans. In 2002-03 the province produced a document entitled *"A Balanced Approach to Surplus and Debt Management."* This laid out the debt level of the province and the importance of reducing that level as we go forward. Subsequently, the province has announced its Debt Reduction Plan which would see the debt of the province start to decline in 2007-08.

What does the measure tell us?

The purpose of the paper is to inform Nova Scotians about the importance of a balanced budget and the need for continued surpluses in order to reduce the debt. It is also intended to inform Nova Scotian's about the current debt of the province both in absolute terms and in relative terms, using other provincial jurisdictions for comparison.

Where are we now?

The Debt Reduction Plan requires legislation which will be introduced in the Spring 2004. The Plan will result in the province commencing in 2004-05 to build up the surpluses necessary to close the gap between Capital Assets required and associated amortization costs by 2007-08.

Where do we want to go?

To meet or exceed the net direct debt/GDP ratios identified in the Surplus Management/Debt Control plan, and to look at options available to the government to reduce debt and examine the feasibility of each option while meeting the priorities of Nova Scotians.

Core Business: Fiscal Planning and Policy Development
Measure: Credit ratings of major rating agencies
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business area of the department is fiscal planning and policy development. A desired outcome is the production of an orderly, prudent and sustainable multi-year fiscal plan. Using credit ratings by major rating agencies as a measure determines whether or not the department has improved its financial position and access to funding.

What does the measure tell us?

A credit rating is an evaluation of a borrower's ability and willingness to pay interest and to repay principal. Rating firms provide investors with these measures of credit quality of bonds or other financial instruments. A credit rating affects the borrower's debt servicing costs and the investor's rate of return since an investor will demand a higher interest rate on a more risky, lower-rated security.

Where are we now?

The Dominion Bond Rating Service (DBRS)credit rating for 2002-03 was BBB (high) with a stable outlook. This rating has been upgraded, as of August 26, 2003, to A(low) with a stable outlook.

Canadian Ratings

Province	**Dominion Bond Rating Service**
Newfoundland	BBB
Prince Edward Island	A(low)
Nova Scotia	A(low)
New Brunswick	A
Quebec	A
Ontario	AA(low)
Manitoba	A
Saskatchewan	A
Alberta	AA(high)
British Columbia	AA(low)

Source: Nova Scotia Department of Finance 2002-2003

Where do we want to go?

A DBRS rating of A(low) indicates that the 2004-05 target has been met. We will strive to maintain or improve the rating through 2004-05.

Core Business: Fiscal Planning and Policy Development
Measure: Surplus/Deficit
Outcome: Producing an orderly, prudent and sustainable multi-year fiscal plan

A core business are of the department is fiscal planning and policy development. A desired outcome is the production of an orderly, prudent and sustainable multi-year fiscal year plan. A measure used by the department to achieve this outcome is the production of a multi-year plan that is balanced or contains a surplus.

What does the measure tell us?

A balanced budget means that the government has its spending under control. In order to achieve the objective of a balanced budget, the Department of Finance works closely with the Treasury and Policy Board to ensure that expenditures are closely monitored. The department also continues to enhance its fiscal models to improve in-house revenue forecasting.

Where are we now?

The province tabled its first balanced budget in 2002-2003 under fully consolidated financial statements.

Where do we want to go?

To achieve sustained and increasing surpluses.

Core Business: Fiscal Planning and Policy Development
Measure: Overall corporate income and capital tax rates
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. A desired outcome is a positive climate for investment that stimulates economic growth. Overall corporate income tax and capital tax burden is a measure used to achieve the desired outcome.

What does it tell us?

Corporate income and capital tax rates measure the overall business tax rate applied to Nova Scotia business[1]. It is the most visible form of taxation for businesses looking to invest in Nova Scotia. This measure tells us the general tax rates applied to business income and to business capital – two major elements of business investment. By monitoring these rates, we can compare them to rates in other jurisdictions to ensure that the province remains competitive.

Where are we now?

The table below provides an overview of where Nova Scotia is today in comparison with other Atlantic Provinces. Although the small business rate has not changed in Nova Scotia, the threshold on which that rate applies has been increased by $25,000 and will continue to increase by $25,000 each year over the next three years. These rates do not take into account tax credit programs that exist in Nova Scotia or the other provinces:

Atlantic Canada Business Tax Rates, 2003:

	Nova Scotia	**New Brunswick**	**PEI**	**Newfoundland and Labrador**
General income tax	16%	13%	16%	14%
Small Business income tax	5%	3%	7.5%	5%
Large Corporations Tax (Capital Tax)	0.25%	0.3%	Nil	Nil

Where do we want to go?

We want to ensure our business tax rates remain competitive with other provinces while maintaining fiscal responsibility. The introduction of balanced budgets allows the province to remain competitive.

[1] Note the current measure looks only at the general rates and does not include special tax incentives and targeted measures.

Core Business: Fiscal Planning and Policy Development
Measure: Marginal Effective Personal Tax Rates
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. A desired outcome is a positive climate for investment that stimulates economic climate. A measured used to achieve this outcome is marginal effective personal tax rates.

What does the measure tell us?

Marginal effective personal tax rates looks at the marginal effective tax rates in four personal income ranges, commonly referred to as the low, middle and high brackets and either a high income surtax or a fourth bracket. It is a good measure of the amount of tax expected to be paid on the next dollar earned in an income bracket. This measure is not designed to measure the tax burden. The measure tells us how much tax an individual can expect to pay on the next dollar of taxable income earned and allows us to compare this to other provinces.

Where are we now?

The following table shows the marginal effective rates in Atlantic Canada. It should be noted that as a result of the move to Tax on Net Income, provinces are allowed to individually move income brackets. This has resulted in differing brackets across the country, hindering effective comparability. We have chosen to use the terms Low, Middle, High and High Plus to distinguish the brackets. Generally, the low bracket is up to about $30,000, the middle bracket up to about $60,000 and the High over $60,000. High Plus refers to where either a high income surtax starts (based on the amount of basic tax payable, in Nova Scotia's case $10,000 of tax) or an additional bracket starts (in New Brunswick's case $100,000 of income).[2]

Personal income tax rates – 2003

	Nova Scotia	New Brunswick	PEI	Nfld and Labrador
Low	9.77%	9.68%	9.8%	10.57%
Middle	14.95%	14.82%	18.18%	16.16%
High	16.67%	16.52%	18.37%	18.02%
High plus (incl surtaxes)	18.34%	17.84%	18.37%	18.02%

Source: Nova Scotia Department of Finance

[2] A surtax is calculated as a percent of basic tax in excess of a certain threshold.

In the 2003-04 budget, the province announced a one time Nova Scotia Taxpayer Refund of $155 to thoe Nova Scotians who paid provincial income tax. This refund cannot be reflected in the above rates but does represent a reduction in the tax burden of an estimated $68 million.

Where do we want to go?

In the 2003-04 budget, the province announced a reduction in personal income tax rates to take effect January 1, 2004. The table below shows the new rates in comparison to expected rates in other Atlantic Canadian provinces. These new rates will be the lowest in Atlantic Canada.

Personal income tax rates – 2003

	Nova Scotia	New Brunswick	PEI	Nfld and Labrador
Low	8.79%	9.68%	9.8%	10.57%
Middle	13.58%	14.82%	13.8%	16.16%
High	15.17%	16.52%	16.7%	18.02%
High plus (incl surtaxes)	16.69%	17.84%	16.7%	18.02%

Source: Nova Scotia Department of Finance

Core Business: Fiscal Planning and Policy Development
Measure: Provincial Indirect tax per personal income
Outcome: Positive climate for investment that stimulates economic growth

A core business area of the department is fiscal planning and policy development. An expected outcome is to create a positive climate for investment that stimulates economic growth. A measure used to gauge this outcome is indirect tax per personal income.

What does the measure tells us?

Provincial Indirect tax per personal income measures the amount of an individual's personal income paid in indirect taxes. Indirect taxes include sales taxes, fuel taxes, tobacco taxes and other indirect taxes. It is based on Statistics Canada data on a provincial basis. It is determined by dividing provincial indirect taxes paid in the province by total personal income and it tells us how much of our personal income is paid out in indirect taxes and allows for a comparison to other provinces. It is an aggregate measure, which means it is not directly transferable to one's own personal circumstances since each individual's spending patterns are different, however, it is a good measure of the overall burden.

The measure used for this year's report has changed from the 2001-02 report, which used total indirect taxes. Total indirect taxes included municipal and federal taxes. The change results in a lower percentage for all provinces and gives a better comparison of provincial indirect taxes.

Where are we now?

The latest available data for this measure refers to 2000. In 2000, Nova Scotia ranked 2 in the country (1=best) on this measure with a rate of 6.89%. The trend in this measure has been downward and Nova Scotia's ranking has been 2nd since 1997.

Where do we want to go?

Nova Scotia's position on this measure is competitive with other provinces and the goal is to remain so.

Core Business: Fiscal Planning and Policy Development
Measure: Federal Provincial Issues and Initiatives
Outcome: Nova Scotia's interests effectively represented in federal fiscal policies and at federal-provincial discussions related to fiscal arrangements

A core business area of the department is fiscal planning and policy development. A desired outcome is to have Nova Scotia's interests effectively represented in federal fiscal policies and at federal-provincial discussions related to fiscal arrangements. A measure used to achieve this outcome is our involvement in federal-provincial issues and initiatives.

What does the measure tell us?

Representing Nova Scotia's fiscal interests at the federal provincial table is not easily measured, yet it is an integral part of the province's fiscal situation. Through the Fiscal Arrangements Committee (FAC), the Federal Provincial Territorial Taxation Committee and the HST Tax Policy Committee, as well as their various sub-committees (including Transfers Technical Sub Committee (TSC) and the Revenue Allocation Sub-Committee), Nova Scotia has direct access to comment on and review the workings of various federal-provincial agreements. Federal fiscal transfers and tax collection agreements account for over 75% of the provinces total revenues. Federal transfers and tax collection agreements under the responsibility of the Department of Finance include:

- the Tax Collection Agreement or TCA ($1.59 billion) - includes personal and corporate income tax and large corporations tax (capital tax)
- the Comprehensive Integrated Tax Collection Agreement or CITCA ($942 million) - covers the federal agreement to collect and distribute the harmonized sales tax
- Equalization ($1.24 billion) - constitutional payments to provinces intended to ensure provinces can provide reasonably comparable levels of public service at reasonably comparable levels of taxation
- Canada Health and Social Transfer or CHST - block funding provided by the federal government intended to provide some funding for health and social needs

Where are we now? Where do we want to go?

Federal transfers and tax collection agreements under responsibility of the NS Department of Finance

Program	***Where are we now?***	***Where do we want to go?***
TCA	- F/P negotiations underway to renew agreement based on TONI - a number of multi-lateral and bi-lateral discussions continue	- negotiations expected to be completed this fiscal year - ongoing monitoring and revision will be required

CITCA	- agreement has been in place since 1997 - a review process is currently underway with all participating provinces and the federal government to determine if changes are needed - revenue allocation formula changes made	- review of revenue allocation agreement requires constant monitoring to ensure Nova Scotia receives its appropriate allocation
Equalization	- renewed every 5 years, next renewal is 2004 - a number of technical meetings held throughout 2002-03 - the formula is a complicated one with 33 tax bases and over 1000 variables which requires a great deal of research and analysis - Nova Scotia hosted Finance Ministers' meeting in Dec 2002	- renewal required by April 2004 - NS to host PIT Finance Ministers - meetings expected with federal gov't
CHST	- essentially a federal government program, however, strong provincial representation is needed to ensure Nova Scotia's interests are protected - Health accord reached at First Ministers' meeting in Feb 2003	- continue to represent Nova Scotia's interest at F/P meetings.

Source: Nova Scotia Department of Finance

In addition, Nova Scotia actively participates in provincial territorial meetings and will chair these meetings in 2002-03. Participation in academic forums allows the province to challenge positions openly within full view of other provincial and federal officials.

Core Business: Corporate Services
Measure: Number of formal reviews undertaken
Outcome: Quality business services at the best possible price to departments and agencies

A core business area of the department is corporate services. A desired outcome is quality business services at the best possible price to departments and agencies. A measure used to achieve the outcome is the completion of formal reviews.

What does this measure tell us?
Formal reviews of corporate services provides analysis and advice on emerging and ongoing issues required to enhance the province's control over its efficient and effective management of public resources.

Where are we now?
The following two services were reviewed:

- Internal Audit
  Resulted in the internal audit function for all of government centralized within the Department of Finance effective April 1, 2001.
- Payroll
  Resulted in confirmation that continuation of delivery of the service, with slightly fewer staff, by Department of Finance rather than outsourced was the most cost-effective method of delivery.

Where do we want to go?
To conduct one formal review each fiscal year.

Core Business: Investments, Pensions and Debt Management
Measure: Net debt service cost expressed as a percentage of net debt outstanding
Outcome: Effective and prudent management of the province's financial assets and liabilities

A core business area of the department is investments, pensions and debt management. A desired outcome is the effective and prudent management of the province's financial assets and liabilities. A measure using net debt service cost expressed as a percentage of net debt outstanding, determines whether or not we have accomplished the outcome.

What does the measure tell us?

The measure net debt servicing costs as a percentage of net debt outstanding gives an indication of the average interest cost on the province's net debt. However, as debt servicing costs includes a number of accounting adjustments, including various items for pension accounting, the measure is not precise.

Where are we now?

In 2002-03, the net debt servicing cost as a percentage of net debt stood at 8.5 percent, and is estimated to be 8.0 percent in the 2003-04 budget.

Where do we want to go?

The province will continue to manage the debt and investment portfolios to achieve positive results within an appropriate level of financial risk.

Core Business: Investments, Pensions and Debt Management
Measure: Percentage of foreign currency exposure in debt portfolio
Outcome: Effective and prudent management of the province's financial assets and liabilities

A core business area of the department is investments, pensions and debt management. A desired outcome is the effective and prudent management of the province's financial assets and liabilities. Using the percentage of foreign currency exposure in debt portfolio as a measure determines whether or not we have accomplished the outcome.

What does the measure tell us?

The measure of percentage of foreign currency exposure in the debt portfolio measure tells us the risk to net debt servicing costs arising from changes in the value of the Canadian dollar relative to the US dollar. The province has unhedged exposure on principal and interest payments on USD denominated debt.

Where are we now?

The province's foreign currency exposure has been reduced to 15.0 percent on a net basis as of March 31, 2003. To put this figure in context, foreign currency exposure was 72.2 percent on March 31, 1995.

Where do we want to go?

The *Provincial Finance Act* requires that the province reduce its foreign currency exposure to under 20 percent and that all maturities with a term greater than one year are refinanced in Canadian dollars. The Department of Finance has achieved the 20 percent foreign exchange exposure target well ahead of the September 2004 target.

Core Business: Investments, Pensions and Debt Management
Measure: Funded status of Teachers Pension Plan and Superannuation Plan
Outcome: Secure provincial public pension plans

A core business area of the department is investments, pensions and debt management. A desired outcome is secure provincial public pension plans. A measure used to achieve this outcome is the funded status of the plans – the standard measure used in the pension industry.

What does the measure tell us?

This measure tells us what percentage of the pension plan's liabilities are backed by real assets if the plan was to be wound up as at the actuarial date. The closer the funded status is to 100 %, the greater the level of confidence that pension plan members and beneficiaries have that their benefits are secure.

Where are we now?

The following table shows the position for each plan.

Positions for the PSS and TPP plans

Year ended	PSS	TPP
31 Dec 2003	82.1%	76.8%

Source: Nova Scotia Department of Finance

Where do we want to go?

The intention is that both plans will be adequately funded. To achieve this, the strategy is to maximize the rate of return within an appropriate level of risk and to ensure that any benefit enhancements are fully funded. The rate of return is subject to external capital market conditions. Consequently the funded ratios will not exhibit a constant trend but may vary from a position to an unfunded position or vice versa. 2002 market conditions were extremely poor for the third year in a row and consequently there was a significant increase in the amount of unfunded liability.

Core Business: Developing a Quality Organization
Measure: Training
Outcome: Well-qualified and productive employees

A core business area of the department is developing a quality organization. A desired outcome is the development of well qualified and productive employees. Training is one measure used to determine success.

What does this measure tell us?
Training which results in enhancing the qualifications and value of employees within the Department of Finance, is strongly supported by senior management. The result is having a workforce who are ready to meet the challenges offered within the organization.

Where are we now?
Presently training is determined on an "as needed" basis and in some cases, it is clearly tied to "development" of employees. Identifying succession management as key to our success, we are presently making more effort to have resources directed to the "development" of employees in order to support the concept of the Department of Finance as a 'learning organization'.

Where do we want to go?
We want the Department of Finance to be seen as a 'learning organization' with a goal of being an effective and efficient corporate leader across government in the field of financial management. This will require ensuring that our employees have the knowledge and experience to take on the challenges presented. We will continue to support the professional development of our employees for such things as the Leadership Development Programs of the PSC, requests for educational support, as well as other employment/development opportunities.

Core Business: Developing a Quality Organization
Measure: Personal career planning
Outcome: Well-qualified and productive employees

A core business area of the department is developing a quality organization. A desired outcome is the development of well qualified and productive employees. Personal career planning is one measure used to determine success.

What does this measure tell us?

Employees who are ready to meet the challenges offered within the organization, need to know what they can do to personally prepare themselves - key to this is career planning. Once employees know the opportunities and challenges before them, they can better prepare themselves.

Where are we now?

Effective succession planning is a key factor in working and planning with employees and management to meet the needs of an organization. It is anticipated that with an effective succession management process in place, employees will be better able to determine how their career aspirations fit in with the direction of the organization and government as a whole. The Department of Finance has identified the need for succession planning and is in the process of developing initiatives within the department (in partnership with the Public Service Commission) to achieve this goal.

Where do we want to go?

The Department of Finance will make every effort to link employee's career aspirations to the needs and goals of the organization by supporting development requests from employees and working in partnership with other government departments and the Public Service Commission.